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SUBJECT: VIETNAM'S EXPORT PROCESSING ZONES AND INDUSTRIAL PARKS:
ECONOMIC BOON, ENVIRONMENTAL BUST

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11. (SBU) Summary. Industrial Parks (IPs) and Export Processing Zones (EPZs) are key components of Vietnam's growing economy. However, IPs and EPZs emit large amounts of air and water pollutants, while producing growing quantities of solid wastes. While the Government of Vietnam (GVN) has several environmental management tools at its disposal and EPZ/IP managers are tasked with ensuring the environmental compliance of their tenants, in practice, the system has done little to manage pollution. Therefore, many businesses are faced with trying to comply with unclear standards. Some multinationals rely on internal company codes of conduct. The GVN fears that many others simply discharge wastes directly into the environment. End Summary.

EPZs and IPs Play a Key Role
in Vietnamese Economic Growth

12. (U) IPs and EPZs play a major and growing role in GVN development plans, particularly in attempts to attract Foreign Direct Investment (FDI) and to integrate Vietnam into the global economy. EPZs and IPs also assist in poverty alleviation and in the distribution of economic benefits. As of 2007, Vietnam contained 154 IPs and EPZs and 9 Economic Zones (EZs) covering 32,000 hectares in 48 cities and provinces nationwide. By 2010, Vietnam plans to add an additional 15,000-17,000 hectares with another 27,000-30,000 hectares (including 115 new IPs and EPZs) by 2015. Initially, IPs and EPZs were concentrated in southern Vietnam, particularly near Ho Chi Minh City. While the majority of IPs and EPZs remain in the south, the GVN actively promotes expansion into the north and central regions. Dong Nai Province, just north of Ho Chi Minh City, contains 39 percent of all IP and EPZ investment capital, closely followed by its western neighbors, Binh Duong Province and Ho Chi Minh City, each with 15 percent. Hanoi with 10 percent of total investment capital, ranks fourth.

13. (U) In 2006, EPZs and IPs accounted for 29 percent of gross national industrial output (USD 17 billion). EPZs and IPs produced export revenue of USD 8.3 billion and contributed USD 880 million to the Vietnamese budget, while employing 918,000 people. They currently constitute 45 percent of industrial production, which the GVN expects to jump to 50 percent by 2010 and 60 percent by 2015. According to the Hanoi Authority for Industrial and Export Processing Zones (HIPZA), EPZ and IP production constitutes 30-35 percent of industrial production and 35-40 percent of exports from the Hanoi region, while provincial authorities in Haiphong note that

EPZs produce one third of total exports from Haiphong. Foreign investment makes up the large majority of total projects, with investment capital of USD 21.8 billion, accounting for 35.7 percent of all FDI projects and 36 percent of FDI capital nation-wide. Local investment totals USD 6-7 billion. Taiwan, Japan, and Korea are the primary investors in EPZs and IPs with total projects valued at over USD 12.3 billion. U.S. investment in 103 projects in EPZs and IPs equals USD 720 million or 3 percent of the total. Additionally, a small number of U.S. businesses, including AIG, have entered into the IP/EPZ development and management sector.

EPZs and IPs also Play a Key Role in Pollution Problem

14. (U) The growth of EPZs and IPs has led to increasing environmental impacts. While the entities that oversee EPZs and IPs argue that these facilities have relatively minimal impacts on the environment, most acknowledge that discharges from these entities do not meet Vietnamese environmental standards. For example, in May 2008, in Tan Binh Industrial Zone, in HCMC's north, coliform in waste water at the treatment station was found to be 84.6 times higher than acceptable limits. Earlier this month, the Dong Nai Department of Natural Resources and Environment announced that the Bien Hoa 1 Industrial Zone dumped nearly 15,000 cubic meters of untreated water directly into the Cai River, which feeds the Dong Nai river. Dong Nai officials stated that the liquid effluent contained unacceptably high levels of several metals and coliform. Dong Nai officials also stated that tenants at the facility stockpiled dangerous and untreated industrial wastes and could not control dust emissions. A media report from last week noted that several Japanese vessels refused to call at a river port in Dong Nai province after five days in the polluted port removed paint and decreased hull thickness by eight millimeters (about a third of an inch) from company ships. The national Ministry of Natural Resources

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and Environment (MONRE) recently declared that river "virtually dead" due to industrial pollution. MONRE also recently found pollution of underground water resources in Hanoi by toxic substances, particularly in areas surrounding IZs.

Environmental Considerations in General EPZ/IP Planning

15. (SBU) The Ministry of Planning and Industry must approve all EPZ and IP development, though it coordinates planning and development with other ministries, as well as provincial and local authorities. According to Dr. Tran Ngoc Hung, Deputy Director of the Department for Industrial and Export Processing zones, MPI considers environmental issues when making policies and strategizing about EPZs and IPs, which face stricter environmental requirements than facilities operating under more general environmental laws. The GVN is now completing regulations for environmental protection in IPs and EPZs to balance investment with environmental protection and to include some means to limit importation of polluting/out-of-date technologies. MPI claims that it ensures that all projects have adequate infrastructure inside and outside the facilities (roads, waste treatment, power etc.) and requires heavily polluting industries to locate in special areas, away from urban centers. A recent Prime Ministerial instruction requires all existing EPZs and IPs to build central wastewater treatment plants by 2010, for which the GVN will provide financial incentives. By 2010, the GVN plans to build independent monitoring stations in EPZs and IPs to measure pollution levels, though it has not yet identified funding for these stations, which MPI estimates to cost up to USD 1 million apiece.

Environmental Impact Assessments

16. (SBU) Vietnamese environmental officials rely upon Environmental Impact Assessments (EIA) as their primary means to protect the environment at EPZs and IPs. GVN regulations require an EIA prior to construction of an IP or EPZ and IP/EPZ managers must file a new EIA if new facilities in the IP/EPZ cumulatively change the environmental impact of the IP/EPZ. For example, the Dinh Vu EPZ in

Haiphong had to produce a separate EIA when it constructed a liquid jetty to allow its tenants to offload petroleum from ships on the river. Officials determine the need for EIAs for individual factories within IP/EPZs on a case-by-case basis. Investors that anticipate that their projects will have a serious environmental impact must file an Environmental Impact Statement (EIS) with the provincial DONRE, and the EPZ or IP must file a separate, comprehensive EIA. The EIS is used as a basis for granting (or not) an investment license. Projects that do not require EIAs need to sign environmental commitments with the management boards of the EPZ/IP to ensure compliance with environmental requirements. Normally, committees of provincial authorities and local environmental experts review and approve EIAs.

IP/EPZ Environmental Requirements and Provisions

17. (SBU) IP and EPZ managers, working with provincial and central environmental authorities, generally set environmental standards which the tenants must follow. However, concern about environmental issues varies among the EPZs and IPs scattered around the country. Some, like Dinh Vu in Haiphong, have a centralized environmental plan and require tenants to meet basic environmental standards prior to opening and during operations. Some EPZs and IPs monitor environmental practices of tenants. When they detect problems, they may warn the company or notify local environmental authorities. Some IZs will refuse to permit polluting industries to operate within their boundaries or try to ensure that tenants only use up-to-date production technologies. The Chan May Lang Co Industrial Park management board recently rejected a proposal from Vinashin, Vietnam's major state-owned shipbuilder, for a ship assembly in the zone because of deleterious environmental effects (Note: Provincial authorities in central Khanh Hoa province recently fined Vinashin for a series of environmental violations over the past several years, including the improper discharge of toxic waste).

Enforcement Difficulties

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18. (SBU) Though central and provincial authorities, together with IP/EPZ management, all claim to focus on environmental considerations, actual implementation of environmental requirements remains haphazard and communications between these entities and the regulated facilities can be unclear. According to HIPZA and other local Hanoi authorities, many polluting tenants in IPs/EPZs do not comply with environmental standards. Despite GVN policy/regulations now requiring them, as of early 2008, only 56 of the 154 EPZs and IPs have central wastewater treatment systems. Only six of Ho Chi Minh City's 15 industrial and export processing zones have waste water treatment plants. Many facility developers consider the 3 million and USD 7 million cost of developing such centralized facilities - prohibitive. In Ho Chi Minh City, earlier this year, 98 out of 106 companies inspected by the provincial Department of Natural Resources and Environment (DONRE) were fined for flouting waste water treatment regulations.

19. (SBU) Even where officials attempt to enforce pollution standards, their efforts often are thwarted by the limited amount authorized to fine violators. Provincial DONREs can and do inspect IZs for environmental compliance, though these inspections can be inconsistent. Additionally, DONREs normally must announce upcoming inspections, providing violating facilities the opportunity to conceal violations. According to Deputy Director General Bui Cach Tuyen of the General Department of Environment under MONRE, the maximum fine for environment violations is VND80 million (USD 5,000), an insignificant amount compared to the cost savings a business can make by not properly treating its waste water. While central authorities have the power to shut down factories that repeatedly flout environmental laws, they rarely do so due to the need to coordinate with district, city and ward officials and to economic and labor concerns. (Note: the Haiphong DONRE stated that two years ago it closed Haiphong Cement Manufacturing, which had operated for 100 years, due to continued environmental problems).

Waste Management Difficulties

¶10. (SBU) At many EZs and IPs, industrial wastes management remains ad hoc, with many provincial authorities unaware of treatment arrangements. Tenants are responsible for sorting and classifying solid and/or hazardous wastes, which (theoretically) are removed from the EPZ or IP by a licensed waste handler, either a private company or a government service, hired by the park management, though our contacts provided little information about their qualifications or disposal practices. Even where disposal services exist, it can be difficult to transport those wastes to disposal facilities. According to Vice Manager Le Van Huong of the Tra Vinh Industrial Zone Management Board, environmental waste disposal companies pick up solid and liquid waste by truck and deliver it to Ho Chi Minh City for disposal. (Note: Tra Vinh is 200 km from HCMC, accessible only by poor roads.) Representatives of Chevron, which operates two facilities near Haiphong, stated that the Haiphong area contains no licensed hazardous waste collectors, requiring residents in local EPZs and IPs to hire companies from Hanoi, three hours away. With little capacity in Vietnam to properly treat certain industrial and hazardous wastes, facility owners face three choices; store the waste indefinitely, pay high fees for a distant, licensed disposal company to handle the wastes, or hire a local firm to make the wastes "go away." The owner of an Australian steel wiring facility noted that local authorities recently offered to arrange the removal of industrial wastes from his facility but could not explain how or where the wastes would be treated. The owner instead decided to store the wastes on site until he could be certain of proper disposal.

Fears of Importing Pollution

¶11. (SBU) Though Vietnamese officials actively promote IPs and EPZs as destinations for foreign investment, they voice concerns that some foreign investors, notably China, Taiwan and Korea, see Vietnam as a destination for less-efficient and higher-polluting production technologies or environmentally unfriendly practices. These investors "export pollution" to Vietnam. HIPZA officials in Hanoi singled out United Motor Vietnam, a wholly-Chinese owned company, manufacturing motorbikes at the Noi Bai industrial zone near Hanoi's international airport, as a particular problem. According to Haiphong officials, a Chinese investor wants to import used plastic

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bottles to Vietnam for cleaning. The plastic bottles would then be sent to China for recycling, while Vietnam would have to manage the cleaning waste. The Haiphong DONRE recently refused to issue a USD 128 million license for a Chinese urea fertilizer project which would have used 1960s technology. The Dinh Vu IZ has refused three Taiwanese chemical projects due to environmental concerns.

¶12. (SBU) While the GVN understands the potential environmental consequences, environmental officials lament that Vietnam lacks environmental standards or other "barriers" to prevent the importation of such technology and does not have the capacity to define modern versus out-of-date or inefficient. While the Ministry of Science and Technology (MOST) and MONRE control the importation of technology for large projects and attempt to ensure that only modern, efficient technologies come to Vietnam, the central government cannot control technologies involved in smaller projects, which only need approval from local People's Committees. According to Professor Pham Ngoc Dang, the chair of the Vietnam Clean Air Partnership, many such agreements exist between China and Vietnamese localities. Officials in less prosperous provinces rarely focus on environmental concerns, instead only looking at the short-term economic bottom line. The Haiphong DONRE reported that when it refused to accept waste materials for reprocessing, other Vietnamese localities jumped in to sign the deal. Recently, another foreign investor sought to invest in ship breaking. Haiphong refused the investment, which tried to move to an IP in Ninh Binh. While the Dinh Vu IP notified provincial authorities of its concerns regarding the proposed Taiwanese chemical investment, it had no means to communicate with management of other IPs that might be contacted in the future.

Comment

¶13. (SBU) EPZs and IPs have been an economic blessing, but an environmental curse. Unfortunately, we expect the situation will get worse before it gets better. GVN and provincial officials, though cognizant of environmental concerns, do not have the capacity to implement and enforce environmental standards. As the economy grows and more EPZs and IPs spring up, waste discharges will also increase. Nonetheless, this presents us with an opportunity, as our interlocutors at all levels have requested our assistance. Responding to industrial pollution will be difficult, and we understand the significant financial constraints upon U.S. assistance in this area. Nevertheless, given the scope of this issue and its likely impact on the economy, environment, and public health, we have identified three meaningful venues for possible U.S. support. First, we can build upon earlier U.S. efforts to assist Vietnam to develop monitoring and analysis capability to better identify the nature and sources of pollutants. Second, we can help improve the capacity of civil society and the press to recognize, understand and publicize these issues. Finally, we can expand ongoing wildlife trafficking enforcement training to include pollution-related offenses. Additionally, we will continue to look for opportunities for U.S. companies with products, services and technologies that provide solutions to these growing environmental problems.

¶14. (U) This cable was coordinated with Consulate General Ho Chi Minh City.

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